

**ANN ARBOR
DOWNTOWN DEVELOPMENT
AUTHORITY**

Basic Financial Statements

For The Year Ended June 30, 2004

AUDITING PROCEDURES REPORT

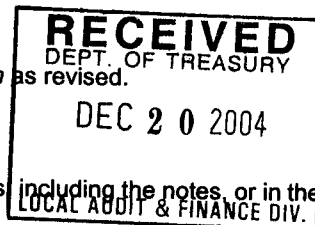
Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Ann Arbor Downtown Development Authority		County Washtenaw
Audit Date 6-30-04	Opinion Date October 15, 2004	Date Accountant Report Submitted to State: December 13, 2004		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

October 15, 2004

To the Members of the
Ann Arbor Downtown Development Authority Board
Ann Arbor, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the *Ann Arbor Downtown Development Authority (the "Authority")*, a component unit of the City of Ann Arbor, as of and for the year ended June 30, 2004, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the Ann Arbor Downtown Development Authority. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Ann Arbor Downtown Development Authority as of June 30, 2004, and the respective changes in its financial position thereof and the respective budgetary comparisons for the General and major special revenue funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented Management's Discussion and Analysis (MD&A) as required supplementary information that the GASB has determined is necessary to supplement, although not required to be, part of the basic financial statements.

Rehmann Robson

**BASIC FINANCIAL
STATEMENTS**

Ann Arbor Downtown Development Authority
Ann Arbor, Michigan
Statement of Net Assets and Governmental Funds Balance Sheet
June 30, 2004

ASSETS	General	Parking	Housing	2002 Pedestrian Improvements	Total Governmental Funds	Adjustments	Statement of Net Assets
Cash	\$ 131,945	\$ 274,891	\$ -	\$ 10,655	\$ 417,491	\$ -	\$ 417,491
Equity in pooled cash and investments	8,336,615	-	611,038	-	8,947,653	-	8,947,653
Investments, at fair value	1,799,146	9,177,368	-	-	10,976,514	-	10,976,514
Personal property taxes receivable	8,780	-	-	-	8,780	-	8,780
Accounts receivable	54,590	346,257	-	-	400,847	-	400,847
Deferred charges	-	-	-	-	-	36,315	36,315
Due from primary government	-	-	-	80,574	80,574	-	80,574
Due from other funds	-	127,324	127,358	-	254,682	(254,682)	-
Total assets	\$10,331,076	\$ 9,925,840	\$ 738,396	\$ 91,229	\$ 21,086,541	(218,367)	20,868,174
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 758,383	\$ 757,850	\$ -	\$ -	\$ 1,516,233	-	1,516,233
Accrued liabilities	11,881	19,026	-	941	31,848	-	31,848
Accrued interest payable	-	-	-	-	-	138,548	138,548
Due to other governments	920,387	-	-	-	920,387	-	920,387
Due to other funds	254,682	-	-	-	254,682	(254,682)	-
Deferred revenue	51,900	-	-	-	51,900	(51,900)	-
Due to primary government	140	340,252	-	120,618	461,010	-	461,010
Long-term liabilities							
Due within one year	-	-	-	-	-	1,370,000	1,370,000
Due in more than one year	-	-	-	-	-	7,805,000	7,805,000
Total liabilities	1,997,373	1,117,128	-	121,559	3,236,060	9,006,966	12,243,026
Fund balances (deficit):							
Reserved for capital improvements	-	8,808,712	-	-	8,808,712	(8,808,712)	-
Reserved for housing	-	-	738,396	-	738,396	(738,396)	-
Unreserved (deficit)	8,333,703	-	-	(30,330)	8,303,373	(8,303,373)	-
Total fund balances (deficit)	8,333,703	8,808,712	738,396	(30,330)	17,850,481	(17,850,481)	-
Total liabilities and fund balances	\$10,331,076	\$ 9,925,840	\$ 738,396	\$ 91,229	\$ 21,086,541		
Net assets							
Unrestricted						\$ 8,625,148	\$ 8,625,148

The accompanying notes are an integral part of the financial statements.

Ann Arbor Downtown Development Authority
Ann Arbor, Michigan
Statement of Activities and Governmental Fund Revenues, Expenditures
and Changes in Fund Balances
For the year ended June 30, 2004

	General	Debt Service	Parking	Housing	2002 Pedestrian Improvements	Total Governmental Funds	Adjustments	Statement of Activities
Revenues:								
Property taxes	\$ 3,189,976	\$ -	\$ -	\$ -	\$ -	\$ 3,189,976	\$ -	\$ 3,189,976
Parking structure revenue	-	-	10,987,033	-	-	10,987,033	-	10,987,033
Investment income	88,228	-	123,411	6,853	1,126	219,618	-	219,618
Miscellaneous revenue	-	-	-	-	-	-	51,900	51,900
Total revenues	3,278,204	-	11,110,444	6,853	1,126	14,396,627	51,900	14,448,527
Expenditures/Expenses								
Operating expense	-	-	7,098,284	121,378	-	7,219,662	-	7,219,662
Administration, general	693,054	-	-	-	-	693,054	-	693,054
Capital outlay	902,086	-	255,800	-	1,322,414	2,480,300	(2,480,300)	-
Debt service:								
Principal	-	1,305,000	-	-	-	1,305,000	(1,305,000)	-
Interest and fees	-	398,314	-	-	-	398,314	43,604	441,918
Contribution to the City	-	-	-	-	-	-	5,490,159	5,490,159
Total expenditures/expenses	1,595,140	1,703,314	7,354,084	121,378	1,322,414	12,096,330	1,748,463	13,844,793
Excess of revenues over (under) expenditures	1,683,064	(1,703,314)	3,756,360	(114,525)	(1,321,288)	2,300,297	(1,696,563)	603,734
Other financing sources (uses):								
Transfers in	-	1,703,314	618,115	200,000	-	2,521,429	(2,521,429)	-
Transfers out	(2,003,314)	-	(518,115)	-	-	(2,521,429)	2,521,429	-
Transfer from the City of Ann Arbor	-	-	-	-	80,699	80,699	(80,699)	-
Transfer to the City of Ann Arbor	-	-	(3,090,558)	-	-	(3,090,558)	3,090,558	-
Total other financing sources (uses)	(2,003,314)	1,703,314	(2,990,558)	200,000	80,699	(3,009,859)	3,009,859	-
Net change in fund balances	(320,250)	-	765,802	85,475	(1,240,589)	(709,562)	709,562	-
Change in net assets	-	-	-	-	-	-	603,734	603,734
Fund balance/net assets, July 1, 2003	8,653,953	-	8,042,910	652,921	1,210,259	18,560,043	(10,538,629)	8,021,414
Fund balance (deficit)/net assets, June 30, 2004	\$ 8,333,703	\$ -	\$ 8,808,712	\$ 738,396	\$ (30,330)	\$ 17,850,481	\$ (9,225,333)	\$ 8,625,148

The accompanying notes are an integral part of the financial statements.

Ann Arbor Downtown Development Authority
Ann Arbor, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual
General Fund
For the year ended June 30, 2004

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Revenues:				
Property taxes	\$ 3,031,184	\$ 3,031,184	\$ 3,189,976	\$ 158,792
Investment income	280,000	280,000	88,228	(191,772)
Miscellaneous revenue	-	-	-	-
Total revenues	3,311,184	3,311,184	3,278,204	(32,980)
Expenditures:				
Administration, general	767,405	767,405	693,054	(74,351)
Capital outlay	4,347,552	4,347,552	902,086	(3,445,466)
Total expenditures	5,114,957	5,114,957	1,595,140	(3,519,817)
Excess of revenues over (under) expenditures	(1,803,773)	(1,803,773)	1,683,064	3,486,837
Other financing sources (uses):				
Transfers out	(2,001,915)	(2,001,915)	(2,003,314)	1,399
Total other financing sources (uses)	(2,001,915)	(2,001,915)	(2,003,314)	1,399
Net change in fund balance	(3,805,688)	(3,805,688)	(320,250)	3,485,438
Fund balance, July 1, 2003	8,653,953	8,653,953	8,653,953	-
Fund balance, June 30, 2004	\$ 4,848,265	\$ 4,848,265	\$ 8,333,703	\$ 3,485,438

The accompanying notes are an integral part of the financial statements.

Ann Arbor Downtown Development Authority
Ann Arbor, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual
Parking Fund
For the year ended June 30, 2004

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Revenues:				
Parking structure revenue	\$ 11,077,590	\$ 11,077,590	\$ 10,987,033	\$ (90,557)
Investment income	209,480	209,480	123,411	(86,069)
Total revenues	11,287,070	11,287,070	11,110,444	(176,626)
Expenditures:				
Operating	5,229,895	5,229,895	7,098,284	1,868,389
Capital outlay	5,000	5,000	255,800	250,800
Total expenditures	5,234,895	5,234,895	7,354,084	2,119,189
Excess of revenues over (under) expenditures	6,052,175	6,052,175	3,756,360	(2,295,815)
Other financing sources (uses):				
Transfers in	-	-	618,115	(618,115)
Transfers out	-	-	(518,115)	518,115
Transfer to the City of Ann Arbor	(4,574,150)	(4,574,150)	(3,090,558)	(1,483,592)
Total other financing sources (uses)	(4,574,150)	(4,574,150)	(2,990,558)	(1,583,592)
Net change in fund balance	1,478,025	1,478,025	765,802	(712,223)
Fund balance, July 1, 2003	2,081,580	2,081,580	8,042,910	5,961,330
Fund balance, June 30, 2004	\$ 3,559,605	\$ 3,559,605	\$ 8,808,712	\$ 5,249,107

The accompanying notes are an integral part of the financial statements.

Ann Arbor Downtown Development Authority
Ann Arbor, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual
Housing Fund
For the year ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment income	\$ 20,314	\$ 20,314	\$ 6,853	\$ (13,461)
Expenditures:				
Operating	-	-	121,378	121,378
Excess of revenues over (under) expenditures	20,314	20,314	(114,525)	(134,839)
Other financing sources (uses):				
Operating transfers in	200,000	200,000	200,000	-
Net change in fund balance	220,314	220,314	85,475	(134,839)
Fund balance, July 1, 2003	652,921	652,921	652,921	-
Fund balance, June 30, 2004	<u>\$ 873,235</u>	<u>\$ 873,235</u>	<u>\$ 738,396</u>	<u>\$ (134,839)</u>

The accompanying notes are an integral part of the financial statements.

ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Ann Arbor Downtown Development Authority (the "Authority") is a nonprofit entity established on May 10, 1982, under City of Ann Arbor Ordinance No. 14-82 and Act No. 197 of Public Acts of 1975 of the State of Michigan, to develop and execute program strategies and approaches to downtown development and to review current ongoing and planned new public and private development projects within the downtown district. It derives its revenues essentially from the excess of real and personal property taxes in each current year over 1982 assessments (tax increment revenues), i.e., any new construction or improvements to existing property within the "downtown" area since the Authority's 1982 inception and from parking structure revenue. It expends its income essentially to fund development activities and meet debt requirements on bonds issued for parking structures and pedestrian improvements.

The Authority is a component unit of the City of Ann Arbor, Michigan (the "City") because the City appoints the Authority's Board of Directors, it has the ability to significantly influence the Authority's operations and it is financially accountability for the Authority. Accordingly, the Authority is presented as a discrete component unit in the City's financial statements and is an integral part of that reporting entity.

Government-wide and Fund Financial Statements – As permitted by GASB Statement No. 34, the Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. Major individual governmental funds are reported as separate columns in the aforementioned financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation – The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The Authority reports the following major governmental funds:

- General Fund
- Parking Special Revenue Fund
- Housing Special Revenue Fund
- Debt Service Fund
- 2002 Pedestrian Improvements Capital Projects Fund

The *general fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

The *special revenue funds* account for financial resources that are legally restricted for Authority parking and housing operations in the downtown development district.

The *debt service fund* accounts for the accumulation of resources for, and the payment of, interest and principal on bonded debt.

The *capital projects fund* accounts for the use of resources, primarily bond proceeds, in constructing or acquiring capital assets, including pedestrian improvements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

Investments

Investments are stated at fair value in accordance with Governmental Accounting Standards Board ("GASB") No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Capital Assets – The Authority has no capital assets for which it holds legal ownership. Parking structures and infrastructure assets (e.g., roads, bridges, curbs, sidewalks, walkways and similar items), constructed by the Authority are not recorded as the Authority's capital assets, even though the Authority may be obligated to repay the debt issued to finance the related projects. Such capital assets become the property of the City when they are placed into service and, accordingly, are reported in the City's capital assets.

Long-term Obligations – In the government-wide financial statements, long-term debt is reported as a liability. Bond discounts, as well as issuance costs, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Budgetary Information – The general fund and special revenue funds are under formal budgetary control and their budget is prepared on the same modified accrual basis used to reflect actual results. In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures are shown on a natural classification basis, and the budgets are adopted and amended at the fund level. Amounts over budget are disclosed in the accompanying budgetary comparisons for the Parking and Housing Special Revenue Funds.

ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

2. CASH AND EQUITY IN POOLED CASH AND INVESTMENTS

The Authority participates in the investment pool maintained by the City.

Statutory Authority

The City is authorized by Michigan law to invest surplus funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time or purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act. 20 as amended through December 31, 1997.

Deposits

A portion of the Authority's deposits, with a carrying value of \$26,812, are pooled with the City's deposits. At year end, the carrying amount of the City's deposits was \$18,898,139 and the bank balance was \$17,507,189. Of the bank balance, \$301,384 was covered by federal depository insurance. The remaining \$17,205,805 was uninsured and uncollateralized. In addition, the Authority has deposits with a carrying value of \$390,479 in a separate bank account. At year end, this account had a bank balance of \$385,994, of which \$100,000 was covered by federal depository insurance, and \$285,994 was uninsured and uncollateralized. The DDA also had \$200 in petty cash.

ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

At year-end, the carrying amount of the Authority's pooled cash and investments which were deposited entirely in the City's internal cash management pool, was \$8,947,653. It is infeasible to allocate risk to individual component units or pool participants. Aggregate cash and investment categorizations are presented in the City's basic financial statements.

Investments

The term of investments and financial institutions used for investment purposes are determined based on Authority needs. Management periodically assesses the financial strength and services provided by financial institutions to help ensure that integrity of principal and Authority investment needs are met.

For the purposes of providing an indication of the assumed levels of risk, investments are categorized as follows:

- Category 1** Investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name.
- Category 2** Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name.
- Category 3** Uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Authority's name.

At June 30, 2004, the Authority had U.S. Government obligations with a carrying and fair value of \$10,976,514, which are all classified in Category 2.

ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

3. LONG-TERM OBLIGATIONS

General Obligation Limited Tax Development Refunding Bonds

On December 30, 1998, the Building Authority issued General Obligation Limited Tax Development refunding bonds in the amount of \$4,040,000. The proceeds were used to partially defease \$1,700,000 of outstanding 1990 General Obligation Limited Tax Development Bonds and \$1,925,000 of outstanding 1992 General Obligation Limited Tax Development Refunding Bonds. The bonds are primarily payable from, and secured by, tax increment revenues. The bonds are also a general obligation of the City of Ann Arbor, secured by its full faith and credit. This advance refunding met the requirements of an in-substance debt defeasance. The balance of the defeased bonds outstanding was \$ -0- at June 30, 2004.

Debt service requirements are as follows:

<u>Fiscal Year</u>	<u>Principal Due September 1</u>	<u>Interest Rate</u>	<u>Interest Requirements September 1/ March 1</u>	<u>Total</u>
2005	\$ 640,000	3.70%	\$ 115,303	\$ 755,303
2006	645,000	3.80%	91,208	736,208
2007	655,000	3.90%	66,180	721,180
2008	660,000	3.95%	40,373	700,373
2009	<u>675,000</u>	4.05%	<u>13,669</u>	<u>688,669</u>
	<u>\$ 3,275,000</u>		<u>\$ 326,733</u>	<u>\$ 3,601,733</u>

ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

1992 Bonds Payable, Pedestrian Improvements

1992 General Obligation Limited Tax Development Bonds

The 1992 bonds were issued for the purpose of making improvements within the District, including sidewalks, lighting, trees and various other pedestrian improvements. The bonds are primarily payable from, and secured by, tax increment revenues. The bonds are also a general obligation of the City of Ann Arbor, secured by its limited tax, full faith and credit.

Debt service requirements are as follows:

<u>Fiscal Year</u>	<u>Principal Due September 1</u>	<u>Interest Rate</u>	<u>Requirements September 1/ March 1</u>	<u>Total</u>
2005	\$ 325,000	5.00%	\$ 78,125	\$ 403,125
2006	350,000	5.00%	61,250	411,250
2007	350,000	5.00%	43,750	393,750
2008	350,000	5.00%	26,250	376,250
2009	<u>350,000</u>	5.00%	<u>8,750</u>	<u>358,750</u>
	<u>\$ 1,725,000</u>		<u>\$ 218,125</u>	<u>\$ 1,943,125</u>

2003 Bonds Payable, Pedestrian Improvements

The 2003 bonds were issued for the purpose of making improvements to the State Street area. The bonds are primarily payable from, and secured by, tax increment revenues. The bonds are also a general obligation of the City of Ann Arbor, secured by its limited tax, full faith and credit.

ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

Debt service requirements are as follows:

<u>Fiscal Year</u>	<u>Principal Due September 1</u>	<u>Interest Rate</u>	<u>Requirements September 1/ March 1</u>	<u>Total</u>
2005	\$ 405,000	2.00%	\$ 149,898	\$ 554,898
2006	435,000	3.00%	137,748	572,748
2007	465,000	3.00%	124,698	589,698
2008	500,000	3.00%	109,585	609,585
2009	535,000	4.00%	92,085	627,085
2010	575,000	4.00%	72,825	647,825
2011	610,000	4.00%	50,400	660,400
2012	<u>650,000</u>	4.00%	<u>26,000</u>	<u>676,000</u>
	<u>\$ 4,175,000</u>		<u>\$ 763,239</u>	<u>\$ 4,938,239</u>

Annual debt service requirements to maturity for the Authority's debt are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,370,000	\$ 343,326
2006	1,430,000	290,206
2007	1,470,000	234,628
2008	1,510,000	176,208
2009	1,560,000	114,504
2010-2012	<u>1,835,000</u>	<u>149,225</u>
	<u>\$ 9,175,000</u>	<u>\$ 1,308,097</u>

A summary of changes in long-term debt for the year ended June 30, 2004, is as follows:

Balance, bonds payable - July 1, 2003	\$10,480,000
Principal retired	<u>1,305,000</u>
Balance, bonds payable - June 30, 2004	<u>\$ 9,175,000</u>
Due within one year	<u>\$ 1,370,000</u>

ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

Other Bonds

Additionally, the Authority is paying the debt service for various parking structures throughout the City in connection with an agreement with the City of Ann Arbor. The tax increment revenues are not, however, pledged for the repayment of such bonds.

4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances primarily reflect balances utilized to facilitate appropriate cash flow for operations.

Transfers primarily reflect subsidiaries allocated from the General Fund.

	<u>In</u>	<u>Out</u>
Interfund Transfers		
General Fund	\$ -	\$ 2,003,314
Debt Service	1,703,314	-
Parking	618,115	518,115
Housing	200,000	-
Total	<u>\$ 2,521,429</u>	<u>\$ 2,521,429</u>

Interfund balance represents the result of interfund transactions for which cash has not yet been transferred between funds.

	<u>Due From</u>	<u>Due To</u>
Interfund Balances		
Parking	\$ 127,324	\$ -
Housing	127,358	-
General	-	254,682
	<u>\$ 254,682</u>	<u>\$ 254,682</u>

ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

5. ACCOUNTS RECEIVABLE

The Authority has a contract with Republic Parking System, Inc. to operate various parking facilities in the City. The accounts receivable amount represents the City's share of revenue from the prior month's activity.

6. RISK MANAGEMENT

The Authority participates in the Michigan Municipal Risk Management Authority (risk pool) for claims related to general liability, vehicle coverage, employee fidelity, and other coverages. The Authority operates as a common risk-sharing management program for municipal entities in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

7. ADJUSTMENTS

Following is an explanation of the adjustments between the governmental funds balance sheet and the government-wide statement of net assets, which reconciles fund balances to net assets:

Fund balances	\$ 17,850,481
Elimination of due to/due from other funds	(254,682)
	254,682
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. These receivables are offset by deferred revenue in the governmental funds, and thus, are not included in fund balances	51,900
Deferred charges are not current financial resources and therefore are not reported in the governmental funds	36,315
Bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds	(9,175,000)
Accrued interest payable on bonds is not recorded by governmental funds	(138,548)
Net assets	<u>\$ 8,625,148</u>

ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

Following is an explanation of the adjustments between the governmental funds statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities, which reconciles the net change in fund balances to the change in net assets:

Net change in fund balances	\$ (709,562)
Adjustments:	
Receivable offset by deferred revenue in fund statements, earned in current year	51,900
Amount paid to other City of Ann Arbor funds for the Authority share of construction costs and debt service requirements. For the statement of activities, other financial sources are eliminated and is reclassified as contributions:	
Transfers to the City of Ann Arbor	3,090,558
Contributions to the City of Ann Arbor	(3,090,558)
Repayment of bond principal is an expenditure in the funds, but the repayment decreases liabilities for <i>net assets</i>	1,305,000
Construction costs are recorded as expenditures in the funds, but as contribution to the City for <i>net assets</i>	(2,480,300) 2,480,300
Operating transfers in and out are eliminating during consolidation	(2,521,429) 2,521,429
Accrued interest expense and amortization of deferred charges on bonds is not recorded in governmental funds	(43,604)
Change in net assets	<u>\$ 603,734</u>

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REHMANN ROBSON

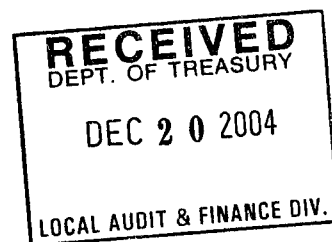
Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

October 15, 2004

To the Members of the
Ann Arbor Downtown Development Authority Board
Ann Arbor, Michigan



We have audited the basic financial statements of the Ann Arbor Downtown Development Authority, *a component unit of the City of Ann Arbor*, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 15, 2004.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Ann Arbor Downtown Development Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Ann Arbor Downtown Development Authority are described in Note 1 to the basic financial statements.

We noted no transactions entered into by Ann Arbor Downtown Development Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

- Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The Authority used no estimates in the valuation of account balances at June 30, 2004.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed numerous adjustments related to the proper accounting for various transactions. These proposed adjustments were all recorded by the Authority, and in our judgment, in the aggregate, had a significant effect on the Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as The Ann Arbor Downtown Development Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This letter and the accompanying comments are intended solely for the use of the Board and management of the Ann Arbor Downtown Development Authority, a component unit of the City of Ann Arbor, and are not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,

A handwritten signature in cursive script, reading "Lehmann Lohman". The signature is written in black ink and is positioned below the "Very truly yours," text.

THE ANN ARBOR DOWNTOWN DEVELOPMENT AUTHORITY

COMMENTS

For the Year Ended June 30, 2004

This memorandum does not affect our report dated March 24, 2004 on the basic financial statements of the Ann Arbor Downtown Development Authority.

Maintenance of general ledger

The Authority took over the general ledger maintenance from the City of Ann Arbor at January 31, 2004 for the General, Parking Operating and Housing funds. At the June 30, 2004 year end, there were several adjustments necessary to correct balance sheet accounts in those funds, with many adjustments related to certain inter-entity balances between the Authority and the City. This process was done well after the fiscal year end. We recognize that many of these adjustments were caused by the separation of the accounting records from the City. Going forward, any adjustments to the accounts should be made currently to provide for the integrity of the internal monthly statements.

The Authority should consider having a mid-year review of the financial records to ensure that the accounting processes are on track.

Budgeting process

Also, P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit of government (City, School, Township, County, Authority) shall not incur expenditures in excess of the amount appropriated. We noted that the budget was not amended from the original budget for the General, Parking Operating and Housing funds. The Parking Operating fund had expenditures that were approximately \$2,119,000 in excess of the original budget. The Act requires amending the budget by the last day of the fiscal year to avoid violations.

We recommend that the budgets for the three governmental funds be reviewed quarterly, and formally amended as necessary, in order to be in compliance with the compiled laws of Michigan.

Accounting Policy

Additionally, we noted that the new accounting policies for the Authority provide for "all balance sheet accounts to be reconciled on a quarterly basis. We recommend that the policy be changed to provide for reconciliations on a monthly basis.

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